

HYRUM CITY CORPORATION

FINANCIAL REPORT

JUNE 30, 2006

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FINANCIAL REPORT
JUNE 30, 2006

TABLE OF CONTENTS

	Page
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-8
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	9
Statement of Activities	10
Fund Financial Statements:	
Balance Sheet - Governmental Funds	11
Balance Sheet Reconciliation to Statement of Net Assets	12
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	13
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	14
Statements of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	15
Statement of Net Assets - Proprietary Funds	16-17
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds	18
Statement of Cash Flows - Proprietary Funds	19
Statement of Net Assets - Fiduciary Funds	20
Notes to Financial Statements	21-32
Supplemental Schedules	
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget to Actual - Major Capital Project Fund	33
Balance Sheet-Non-major Governmental Fund-Library Fund	34
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget to Actual - Non-major Library Fund	35
Schedule of Impact Fees	36

INDEPENDENT AUDITORS' REPORT

To the Mayor and City Council Members
Hyrum City Corporation
Hyrum City, Utah

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Hyrum City Corporation, Utah (the "City"), as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison of the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The supplementary Capital Project Fund statement, nonmajor fund statements and impact fee schedule listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 3, 2006, on our consideration of Hyrum City Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Wiggins & Co., PC

Brigham City, Utah
November 3, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Hyrum City, we offer this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2006. The General Fund includes governmental activities such as administration, fire and first responder services, police protection, roads, parks, senior citizen center, library, etc. The Enterprise Funds comprise utilities of water, sewer, electric, pressurized irrigation and storm water.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, and creditors a general overview of the City's finances and to demonstrate the City's accountability for the funds it receives. If you have any questions about this report or need additional information, please contact Hyrum City Corporation, 83 West Main, Hyrum, Utah, 84319.

Financial Highlights

The total net assets of Hyrum City Corporation increased by \$2,405,467 totaling \$25,775,972. The governmental activities' net assets increased by \$1,802,654 and the business-type activities' net assets increased by \$602,813.

The total net assets of Hyrum City Corporation is \$25,775,972, and is made up of \$18,683,510 in capital assets (net of related debt) such as land, infrastructure, buildings and improvements and machinery and equipment. The remaining net assets total \$7,092,462. Of this amount, \$6,326,091 is unrestricted. The remaining \$766,371 is restricted for such items as debt service reserves, capital projects, and impact fees.

Total long-term liabilities of the City increased by \$1,807,000. The City has incurred long-term debt for the acquisition of land and the construction of a new sewer plant, which are recorded in the Sewer Fund. During 2006, the City issued \$2,000,000 in Sales Tax Revenue Bonds for the advance funding of the new library facility. Also during 2006, the City retired \$188,000 in sewer revenue bonds and \$5,000 in notes payable in the Sewer Fund. The total outstanding long-term debt of the City at June 30, 2006, was \$5,865,000.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Hyrum City Corporation's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to private-sector business reporting.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. However, other non-financial factors will also need to be considered.

The statement of activities presents information showing how the City's net assets changed during the fiscal year. Regardless of the timing of related cash flows, changes in net assets are reported as soon as the underlying event occurs that gives rise to the change. Thus all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The government-wide financial statements can be found on pages 9-10 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City also uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental Funds---These funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. These fund statements focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called the modified accrual basis of accounting, which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps users determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities reported in the Statement of Net Assets and the Statement of Activities and the governmental funds in a reconciliation included with the fund financial statements.

The City reports two governmental funds as major funds (as determined by generally accepted accounting principles) in the fund financial statements. The two major funds reported are the General Fund and the Capital Project Fund. The remaining governmental fund is the Library Special Revenue Fund and this fund is reported as a nonmajor fund in the fund financial statements.

Proprietary Funds---The City maintains four enterprise funds which are proprietary in nature. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for Culinary Water, Sewer, Electric, Pressurized Irrigation and Storm Water utilities. Each utility is reported as a separate enterprise fund. As determined by generally accepted accounting principles, these utility funds, except for the Storm Water Fund, meet the criteria for major fund classification.

Fiduciary Funds---These funds are used to account for resources held for the benefit of parties outside the City. Fiduciary Funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the programs of the City. The accounting method used for these funds is much like that used for proprietary funds. The City has only one fiduciary fund that is reported in the financial statements, the Justice Court Agency Fund.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. For Hyrum City Corporation, assets exceeded liabilities by \$25,775,972 at June 30, 2006.

By far the largest portion of the City's net assets (72%) reflects its investment in capital assets (e.g. land, buildings, infrastructure, improvements, machinery and equipment), less any related debt used to acquire those assets that is outstanding at year end. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from the operations of the funds wherein the capital assets are recorded, since the capital assets themselves cannot be used to liquidate these liabilities.

A summary of the net assets of the City is as follows:

Governmental Activities:

	2006	2005	Total Changes
Current and other assets	\$ 3,423,536	\$ 1,170,527	\$ 2,253,009
Capital assets	6,912,574	4,964,695	1,947,879
Total assets	<u>10,336,110</u>	<u>6,135,222</u>	<u>4,200,888</u>
Current and other liabilities	866,138	443,683	422,455
Long-term liabilities	2,124,322	148,543	1,975,779
Total liabilities	<u>2,990,460</u>	<u>592,226</u>	<u>2,398,234</u>
Net assets:			
Invested in capital assets, net of related debt	4,912,574	4,964,695	(52,121)
Restricted	194,280	670,200	(475,920)
Unrestricted	2,238,796	(91,899)	2,330,695
Total net assets	<u>\$ 7,345,650</u>	<u>\$ 5,542,996</u>	<u>\$ 1,802,654</u>

Business-type activities:

	2006	2005	Total Changes
Current and other assets	\$ 5,335,433	\$ 6,015,302	\$ (679,869)
Capital assets	17,635,936	16,759,068	876,868
Total assets	<u>22,971,369</u>	<u>22,774,370</u>	<u>196,999</u>
Current and other liabilities	507,195	716,274	(209,079)
Long-term liabilities	4,033,852	4,230,587	(196,735)
Total liabilities	<u>4,541,047</u>	<u>4,946,861</u>	<u>(405,814)</u>
Net assets:			
Invested in capital assets, net of related debt	13,770,936	12,528,481	1,242,455
Restricted	572,091	597,013	(24,922)
Unrestricted	4,087,295	4,529,428	(442,133)
Total net assets	<u>\$ 18,430,322</u>	<u>\$ 17,654,922</u>	<u>\$ 775,400</u>

The City's total net assets increased by \$2,405,467 as summarized below:

Governmental Activities:

	2006	2005	Total Changes
Revenues:			
Program revenues:			
Charges for services	\$ 821,937	\$ 698,736	\$ 123,201
Operating grants and	430,534	270,594	159,940
Capital grants and contributions	1,186,900	108,208	1,078,692
General revenues:			
Property taxes	220,754	219,711	1,043
Sales taxes	650,878	594,690	56,188
Energy taxes	360,474	290,514	69,960
Franchise taxes	31,827	30,508	1,319
Unrestricted investment earnings	14,326	5,688	8,638
Gain on sale of fixed assets	11,534	-	11,534
Transfers	200,000	230,000	(30,000)
Total revenues	<u>3,929,164</u>	<u>2,448,649</u>	<u>1,480,515</u>
Expenses:			
Legislative	55,586	32,263	23,323
Judicial	71,855	87,360	(15,505)
Administration	245,921	324,934	(79,013)
Other general government	73,778	-	73,778
Public safety	370,033	360,477	9,556
Highways and streets	416,490	487,587	(71,097)
Sanitation	359,351	347,651	11,700
Planning, zoning and engineering	139,282	119,553	19,729
Culture, parks and recreation	164,776	516,034	(351,258)
Shop	38,820	52,866	(14,046)
Senior citizens	116,548	92,074	24,474
Cemetery	54,738	40,348	14,390
Community progress	19,332	30,368	(11,036)
Total expenses	<u>2,126,510</u>	<u>2,491,515</u>	<u>(365,005)</u>
Change in net assets	<u>\$ 1,802,654</u>	<u>\$ (42,866)</u>	<u>\$ 1,845,520</u>

Business-type activities:

Revenues:			
Program revenues:			
Charges for services	\$ 7,066,717	\$ 5,916,594	\$ 1,150,123
Operating grants and	-	-	-
Capital grants and contributions	104,659	94,513	10,146
General revenues:			
Unrestricted investment earnings	175,575	140,941	34,634
Gain on sale of fixed assets	-	4,385	(4,385)
Transfers	(200,000)	(230,000)	30,000
Total revenues	<u>7,146,951</u>	<u>5,926,433</u>	<u>1,220,518</u>
Expenses:			
Water	683,250	732,209	(48,959)
Sewer	1,194,034	746,173	447,861
Electric	4,347,830	4,101,482	246,348
Irrigation	303,751	306,424	(2,673)
Storm Water	15,273	-	15,273
Total expenses	<u>6,544,138</u>	<u>5,886,288</u>	<u>657,850</u>
Change in net assets	<u>\$ 602,813</u>	<u>\$ 40,145</u>	<u>\$ 562,668</u>

The change in the City's assets is mainly due to the investment of the sales tax revenue bonds, a donation of over one million dollars from the Hyrum Library and Museum Foundation and a corresponding increase in construction in progress related to the library facility. The increase in liabilities is mainly due to an increase in supplier payables and the issuance of the sales tax revenue bonds.

The City continues to invest in infrastructure facilities such as roads, sidewalks and parks. The decrease in expenditures is mainly due to a decrease in park facility costs and because the City is constructing new infrastructure facilities, maintenance costs decreased in 2006. The increase in operating grants and contributions is due to the use of Class C road funds for maintenance instead of capital purchases as in 2005. The increase in capital grants and contributions is primarily due to the Hyrum Library and Museum Foundation's donation of over one million dollars toward the construction of the new library facility.

The increase in utility revenue is primarily due to increases in water and electric rate increases. Personnel costs increased .5% in 2006. Repairs and maintenance expenses decreased 52%, primarily due to decreased maintenance on the water and sewer systems. The cost of power in the electric fund increased 8%, or \$355,686, in 2006.

Fund Financial Analysis

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements.

At June 30, 2006, the City's governmental funds (General, Capital Projects and Special Revenue Library) reported combined fund balances of \$2,530,698. This represents an increase of \$1,803,854, mainly due to reserved funds for the library facility, during fiscal year 2006.

The General Fund is the chief operating fund of the City. All activities which are not required to be accounted for in separate funds either by state statutes or local ordinance or by a desire to maintain a matching of revenues and expenditures are accounted for in this fund.

Taxes continue to be the largest source of revenue in the General Fund and represent 50.3% of total General Fund revenues. The largest element of taxes is sales tax, representing 51.5% of total tax revenue and 26% of total General Fund revenues.

As stated earlier, the City maintains several Enterprise Funds to account for its business-type activities. The separate fund statements included in this report provide the same information for business-type activities as is provided in the government-wide financial statements. However, the fund statements provide much more detail. See pages 16-19 of the financial report for this information.

Budgetary Highlights

During the year, the budgets of each fund were established and then amended to account for increases in revenue and expenses. Primarily the revenue changes were to bring revenues for energy taxes and intergovernmental grants into line with the year end revenue projections. Expenses were changed to account for personnel cost increases, repairs and maintenance increases and construction projects.

Capital Asset and Debt Administration

The City's investment in capital assets for all activities at June 30, 2006, amounted to \$44,300,465. Accumulated depreciation on capital assets was \$19,751,955. Net capital assets amounted to \$24,548,510 at June 30, 2006. The investment in capital assets includes land, buildings and systems, improvements, infrastructure (roads, sidewalks, curb and gutter, etc.), and machinery and equipment. The total increase in the City's investment in capital assets during 2006 was \$4,322,182. Depreciation expense for 2006 was \$1,497,436, with \$402,575 recorded in governmental activities and \$1,094,861 recorded in business-type activities.

Major capital asset increases during 2006 are as follows:

- Purchase of 26 acres of park property.
- Eight blocks of road surfaces.
- Replacement of tennis court surface.
- Purchase of 369 acre feet of water rights.
- Replacement and expansion of waterline at the industrial park.
- Completion of the new sewer plant.

A comparison of the capital assets of the City is as follows:

Governmental activities:

	2006	2005	Total Changes
Land	\$ 891,148	\$ 410,447	\$ 480,701
Buildings	1,823,777	1,823,777	-
Improvements	1,152,270	990,226	162,044
Infrastructure	1,616,235	5,029,597	(3,413,362)
Machinery & equipment	5,206,064	1,529,928	3,676,136
Construction in progress	1,707,511	262,576	1,444,935
	<u>12,397,005</u>	<u>10,046,551</u>	<u>2,350,454</u>
Less: accumulated depreciation	<u>(5,484,431)</u>	<u>(5,081,856)</u>	<u>(402,575)</u>
Total capital assets-governmental activities	<u>\$ 6,912,574</u>	<u>\$ 4,964,695</u>	<u>\$ 1,947,879</u>

Business-type activities:

Land	\$ 1,614,019	\$ 1,595,931	\$ 18,088
Water stock and rights	1,840,432	1,101,877	738,555
Buildings	7,860,111	3,061,698	4,798,413
Improvements	18,670,443	18,272,128	398,315
Machinery & equipment	1,169,197	1,063,541	105,656
Construction in progress	<u>749,258</u>	<u>4,836,557</u>	<u>(4,087,299)</u>
	<u>31,903,460</u>	<u>29,931,732</u>	<u>1,971,728</u>
Less: accumulated depreciation	<u>(14,267,524)</u>	<u>(13,172,664)</u>	<u>(1,094,860)</u>
Total capital assets-business-type activities	<u>\$ 17,635,936</u>	<u>\$ 16,759,068</u>	<u>\$ 876,868</u>

Additional information on the City's capital assets can be found in the notes to the financial statements in this financial report.

The City had total outstanding long-term debt as of June 30, 2006, of \$6,158,174.

The detail of the long-term debt accounts is as follows:

Governmental activities:

	2006	2005	Total changes
Sales Tax Revenue Bonds Payable	<u>\$ 2,000,000</u>	<u>\$ -</u>	<u>\$ 2,000,000</u>

Business-type activities:

Sewer Revenue Bonds Payable	3,845,000	4,033,000	(188,000)
Sewer Note Payable	<u>20,000</u>	<u>25,000</u>	<u>(5,000)</u>
	<u>3,865,000</u>	<u>4,058,000</u>	<u>(193,000)</u>
Total Long-term Debt	<u>\$ 5,865,000</u>	<u>\$ 4,058,000</u>	<u>\$ 1,807,000</u>

Additional information on the City's long-term debt can be found in the notes to the financial statements in this financial report.

HYRUM CITY CORPORATION
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 1,205,580	\$ 3,609,956	\$ 4,815,536	\$ 112,444
Receivables:				
Taxes	8,336	-	8,336	-
Accounts	113,291	767,818	881,109	-
Intergovernmental	49,995	-	49,995	-
Restricted cash and cash equivalents	2,016,708	572,091	2,588,799	-
Inventory	-	301,413	301,413	-
Prepaid expenses	2,926	61,285	64,211	-
Deferred charges: bond issuance costs	26,700	22,870	49,570	-
Capital assets (net of accumulated depreciation):				
Land and easements	891,148	1,614,019	2,505,167	-
Water stock and rights	-	1,840,432	1,840,432	-
Buildings	501,503	5,380,677	5,882,180	-
Improvements	362,560	7,665,777	8,028,337	-
Machinery and equipment	541,809	385,773	927,582	-
Infrastructure	2,908,043	-	2,908,043	-
Construction in progress	1,707,511	749,258	2,456,769	-
Total Assets	10,336,110	22,971,369	33,307,479	112,444
LIABILITIES				
Accounts payable	685,518	404,964	1,090,482	-
Accrued liabilities	29,055	-	29,055	-
Deposits and retainage payable	151,565	80,494	232,059	-
Accrued interest payable	-	21,737	21,737	-
Compensated absences	124,322	168,852	293,174	-
Noncurrent liabilities - due within one year	67,000	196,000	263,000	-
Noncurrent liabilities - due in more than one year	1,933,000	3,669,000	5,602,000	-
Total Liabilities	2,990,460	4,541,047	7,531,507	-
NET ASSETS				
Investment in capital assets, net of debt	4,912,574	13,770,936	18,683,510	-
Restricted for:				
Impact fees	19,708	181,127	200,835	-
Debt service	-	390,964	390,964	-
Capital projects	174,572	-	174,572	-
Unrestricted	2,238,796	4,087,295	6,326,091	112,444
Total Net Assets	\$ 7,345,650	\$ 18,430,322	\$ 25,775,972	\$ 112,444

The notes to the financial statements are an integral part of this statement.

HYRUM CITY CORPORATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

FUNCTIONS/PROGRAMS	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	Component Unit
					Governmental Activities	Business-type Activities		
PRIMARY GOVERNMENT								
Governmental activities:								
Legislative	\$ 55,586	\$ -	\$ -	\$ -	\$ (55,586)	\$ -	\$ (55,586)	\$ -
Judicial	71,855	148,807	-	-	76,952	-	76,952	-
Administration	245,921	143,546	14,776	-	(87,599)	-	(87,599)	-
Other general government	73,778	-	-	-	(73,778)	-	(73,778)	-
Public safety	370,033	43,449	41,853	-	(284,731)	-	(284,731)	-
Highways and streets	416,490	2,128	321,738	19,500	(73,124)	-	(73,124)	-
Sanitation	359,351	402,533	-	-	43,182	-	43,182	-
Planning, zoning and engineering	139,282	22,446	-	-	(116,836)	-	(116,836)	-
Culture, parks and recreation	164,776	36,112	48,582	1,167,400	1,087,318	-	1,087,318	-
Shop	38,820	-	-	-	(38,820)	-	(38,820)	-
Senior citizens	116,548	-	3,585	-	(112,963)	-	(112,963)	-
Cemetery	54,738	20,325	-	-	(34,413)	-	(34,413)	-
Community progress	19,332	2,591	-	-	(16,741)	-	(16,741)	-
Total governmental activities	2,126,510	821,937	430,534	1,186,900	312,861	-	312,861	-
Business-type activities:								
Water	683,250	922,319	-	20,710	-	259,779	259,779	-
Sewer	1,194,034	707,651	-	47,507	-	(438,876)	(438,876)	-
Electric	4,347,830	5,181,926	-	-	-	834,096	834,096	-
Irrigation	303,751	232,684	-	36,442	-	(34,625)	(34,625)	-
Storm Water	15,273	22,137	-	-	-	6,864	6,864	-
Total business-type activities	6,544,138	7,066,717	-	104,659	-	627,238	627,238	-
Total primary government	\$ 8,670,648	\$ 7,888,654	\$ 430,534	\$ 1,291,559	312,861	627,238	940,099	-
COMPONENT UNIT								
Hyrum Library & Museum	\$ 1,090,000	\$ -	\$ -	\$ 632,424				(457,576)
General revenues								
Property taxes					220,754	-	220,754	-
Sales taxes					650,878	-	650,878	-
Energy tax					360,474	-	360,474	-
Franchise tax					31,827	-	31,827	-
Grants and contributions not restricted to specific programs					-	-	-	-
Unrestricted investment earnings					14,326	175,575	189,901	20,050
Gain on sale of capital assets					11,534	-	11,534	-
Transfers					200,000	(200,000)	-	-
Total general revenues and transfers					1,489,793	(24,425)	1,465,368	20,050
Change in net assets					1,802,654	602,813	2,405,467	(437,526)
Net assets - beginning, as restated					5,542,996	17,827,509	23,370,505	549,970
Net assets - ending					\$ 7,345,650	\$ 18,430,322	\$ 25,775,972	\$ 112,444

The notes to the financial statements are an integral part of this statement.

HYRUM CITY CORPORATION
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General	Capital Project Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 669,577	\$ 530,902	\$ 5,101	\$ 1,205,580
Receivables:				
Taxes	8,336	-	-	8,336
Accounts	113,291	-	-	113,291
Intergovernmental	49,995	-	-	49,995
Prepaid expenses	2,926	-	-	2,926
Restricted cash and cash equivalents	19,708	1,997,000	-	2,016,708
Restricted investments	-	-	-	-
Total assets	\$ 863,833	\$ 2,527,902	\$ 5,101	\$ 3,396,836
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 329,188	\$ 356,330	\$ -	\$ 685,518
Accrued payroll liabilities	29,055	-	-	29,055
Contracts and deposits payable	151,565	-	-	151,565
Deferred revenue	-	-	-	-
Total liabilities	509,808	356,330	-	866,138
Fund balances				
Reserved for library	-	1,997,000	-	1,997,000
Reserved for impact fees	19,708	-	-	19,708
Unreserved:				
Designated	61,484	-	5,096	66,580
Undesignated	272,833	174,572	5	447,410
Total fund balances	354,025	2,171,572	5,101	2,530,698
Total liabilities and fund balances	\$ 863,833	\$ 2,527,902	\$ 5,101	\$ 3,396,836

The notes to the financial statements are an integral part of this statement.

HYRUM CITY CORPORATION
RECONCILIATION OF THE BALANCE SHEET-GOVERNMENTAL FUNDS TO THE STATEMENT OF
NET ASSETS
JUNE 30, 2006

Total fund balances-governmental funds \$ 2,530,698

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. These assets consist of:

Land	\$	891,148	
Buildings		1,823,777	
Improvements		1,152,270	
Machinery and equipment		1,616,235	
Infrastructure		5,206,065	
Construction in progress		1,707,511	
Accumulated depreciation		<u>(5,484,432)</u>	
Total capital assets			6,912,574

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Bonds payable	(2,000,000)		
Compensated absences		<u>(124,322)</u>	
Total liabilities			(2,124,322)

Bond issue costs are reported as expenditures in the governmental funds.

The cost is \$26,700 and the accumulated amortization is \$0.

26,700

Total net assets-governmental funds

\$ 7,345,650

The notes to the financial statements are an integral part of this statement.

HYRUM CITY CORPORATION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	General	Capital Project	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Taxes:				
Property	\$ 220,754	\$ -	\$ -	\$ 220,754
Sales	650,878	-	-	650,878
Energy	360,474	-	-	360,474
Franchise	31,827	-	-	31,827
Licenses and permits	61,586	-	-	61,586
Intergovernmental	405,428	-	6,735	412,163
Charges for services	525,653	12,000	-	537,653
Fines	148,807	-	-	148,807
Miscellaneous	73,891	-	-	73,891
Contributions	18,361	1,090,000	10	1,108,371
Investment earnings	12,847	1,479	-	14,326
Total revenues	<u>2,510,506</u>	<u>1,103,479</u>	<u>6,745</u>	<u>3,620,730</u>
EXPENDITURES				
Current:				
Legislative	55,586	-	-	55,586
Judicial	71,142	-	-	71,142
Administration	187,723	-	-	187,723
Other general government	73,778	-	-	73,778
Public safety	362,730	-	-	362,730
Highways and streets	486,990	204,622	-	691,612
Sanitation	359,351	-	-	359,351
Planning, zoning and engineering	138,928	-	-	138,928
Culture, parks and recreation	357,730	1,552,451	5,537	1,915,718
Shop	51,726	-	-	51,726
Senior citizens	101,628	-	-	101,628
Cemetery	69,356	-	-	69,356
Community progress	19,332	-	-	19,332
Total expenditures	<u>2,336,000</u>	<u>1,757,073</u>	<u>5,537</u>	<u>4,098,610</u>
Excess (deficiency) of revenues over (under) expenditures	<u>174,506</u>	<u>(653,594)</u>	<u>1,208</u>	<u>(477,880)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	200,000	638,690	-	838,690
Transfers out	(638,690)	-	-	(638,690)
Proceeds from issuance of bonds	-	2,000,000	-	2,000,000
Bond issuance costs	-	(26,700)	-	(26,700)
Proceeds from sale of fixed assets	11,534	-	-	11,534
Impact fees	96,900	-	-	96,900
Total other financing sources and uses	<u>(330,256)</u>	<u>2,611,990</u>	<u>-</u>	<u>2,281,734</u>
Net change in fund balances	<u>(155,750)</u>	<u>1,958,396</u>	<u>1,208</u>	<u>1,803,854</u>
Fund balances - beginning	509,775	213,176	3,893	726,844
Fund balances - ending	<u>\$ 354,025</u>	<u>\$ 2,171,572</u>	<u>\$ 5,101</u>	<u>\$ 2,530,698</u>

The notes to the financial statements are an integral part of this statement.

HYRUM CITY CORPORATION
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE-GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds \$ 1,803,854

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$2,350,454) exceeded depreciation (\$402,575) during the period. 1,947,878

The liability for compensated absences is not recorded in the governmental funds, but is reported in the statement of assets. This is the current year change in the liability, reported as expense in the statement of activities. 24,222

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. Proceeds from issuance of bonds was \$2,000,000 and bond issuance costs were \$26,700. (1,973,300)

In the fund statements, proceeds from sale of fixed assets are recorded as revenue, but in the statement of activities only the gain is recognized as revenue.

Change in net assets of governmental activities \$ 1,802,654

The notes to the financial statements are an integral part of this statement.

HYRUM CITY CORPORATION
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Property	\$ 220,800	\$ 217,800	\$ 220,754	\$ 2,954
Sales	617,125	647,000	650,878	3,878
Energy	260,000	347,000	360,474	13,474
Franchise	25,800	32,400	31,827	(573)
Licenses and permits	25,500	30,200	61,586	31,386
Intergovernmental	222,800	376,800	405,428	28,628
Charges for services	483,450	574,600	525,653	(48,947)
Fines	128,600	128,800	148,807	20,007
Miscellaneous	29,500	22,000	73,891	51,891
Contributions	15,500	15,400	18,361	2,961
Investment earnings	5,400	5,400	12,847	7,447
Total revenues	<u>2,034,475</u>	<u>2,397,400</u>	<u>2,510,506</u>	<u>113,106</u>
EXPENDITURES				
Current:				
General government:				
Legislative	53,800	57,800	55,586	2,214
Judicial	73,250	72,250	71,142	1,108
Administration	211,000	190,000	187,723	2,277
Other general government	71,950	78,100	73,778	4,322
Public safety	375,300	368,000	362,730	5,270
Highways and streets	372,550	522,550	486,990	35,560
Sanitation	358,000	365,000	359,351	5,649
Planning, zoning and engineering	135,000	148,000	138,928	9,072
Culture, parks and recreation	391,775	391,475	357,730	33,745
Shop	39,900	55,000	51,726	3,274
Senior citizens	91,000	105,000	101,628	3,372
Cemetery	80,700	80,700	69,356	11,344
Community progress	21,250	21,250	19,332	1,918
Total expenditures	<u>2,275,475</u>	<u>2,455,125</u>	<u>2,336,000</u>	<u>119,125</u>
Excess of revenues over expenditures	<u>(241,000)</u>	<u>(57,725)</u>	<u>174,506</u>	<u>232,231</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	200,000	200,000	200,000	-
Transfers out	(381,500)	(638,690)	(638,690)	-
Proceeds from sale of fixed assets	8,700	8,700	11,534	2,834
Impact fees	61,600	89,700	96,900	7,200
Total other financing sources and uses	<u>(111,200)</u>	<u>(340,290)</u>	<u>(330,256)</u>	<u>10,034</u>
Net change in fund balances	<u>(352,200)</u>	<u>(398,015)</u>	<u>(155,750)</u>	<u>242,265</u>
Fund balances - beginning	509,775	509,775	509,775	-
Fund balances - ending	<u>\$ 157,575</u>	<u>\$ 111,760</u>	<u>\$ 354,025</u>	<u>\$ 242,265</u>

The notes to the financial statements are an integral part of this statement.

HYRUM CITY CORPORATION
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006

	Major Enterprise Funds				Non-Major Fund	Total Enterprise Funds
	Water Fund	Sewer Fund	Electric Fund	Irrigation Fund	Storm Water Fund	
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 1,071,241	\$ 799,625	\$ 1,282,784	\$ 456,306	\$ -	\$ 3,609,956
Receivables:						
Accounts	81,021	82,561	564,843	34,105	5,288	767,818
Due from other funds	46,310	-	-	-	-	46,310
Inventory	31,883	-	268,253	1,277	-	301,413
Prepaid expenses	2,250	3,000	56,035	-	-	61,285
Total current assets	<u>1,232,705</u>	<u>885,186</u>	<u>2,171,915</u>	<u>491,688</u>	<u>5,288</u>	<u>4,786,782</u>
Noncurrent assets:						
Restricted cash and cash equivalents:						
Revenue bond covenant accounts	-	390,964	-	-	-	390,964
System development	91,441	89,686	-	-	-	181,127
Deferred charges: bond issuance costs	-	22,870	-	-	-	22,870
Capital assets:						
Land and easements	23,411	585,937	918,287	86,384	-	1,614,019
Water stock and rights	738,555	-	-	1,101,877	-	1,840,432
Buildings	194,726	7,304,275	361,110	-	-	7,860,111
Improvements other than buildings	6,133,440	3,063,779	4,594,698	4,865,678	12,848	18,670,443
Machinery and equipment	424,333	276,154	449,542	-	19,168	1,169,197
Construction in progress	238,466	41,840	415,999	34,327	18,626	749,258
Accumulated depreciation	<u>(3,888,517)</u>	<u>(4,974,906)</u>	<u>(3,383,042)</u>	<u>(2,018,303)</u>	<u>(2,756)</u>	<u>(14,267,524)</u>
Total noncurrent assets	<u>3,955,855</u>	<u>6,800,599</u>	<u>3,356,594</u>	<u>4,069,963</u>	<u>47,886</u>	<u>18,230,897</u>
Total assets	<u>5,188,560</u>	<u>7,685,785</u>	<u>5,528,509</u>	<u>4,561,651</u>	<u>53,174</u>	<u>23,017,679</u>

The notes to the financial statements are an integral part of this statement.

HYRUM CITY CORPORATION
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006

	Major Enterprise Funds				Non-Major Fund	Total Enterprise Funds
	Water Fund	Sewer Fund	Electric Fund	Irrigation Fund	Storm Water Fund	
LIABILITIES						
Current liabilities:						
Accounts payable	75,019	9,243	318,366	2,336	-	404,964
Due to other funds	-	-	-	-	46,310	46,310
Deposits and retainage payable	-	-	80,494	-	-	80,494
Accrued payroll liabilities	-	-	-	-	-	-
Compensated absences	43,803	48,984	75,721	344	-	168,852
Total current liabilities	<u>118,822</u>	<u>58,227</u>	<u>474,581</u>	<u>2,680</u>	<u>46,310</u>	<u>700,620</u>
Current liabilities payable from restricted assets:						
Note payable	-	5,000	-	-	-	5,000
Revenue bonds payable	-	191,000	-	-	-	191,000
Accrued interest payable	-	21,737	-	-	-	21,737
Total current liabilities payable from restricted assets	<u>-</u>	<u>217,737</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>217,737</u>
Noncurrent liabilities:						
Deferred Revenue	-	-	-	-	-	-
Note payable	-	15,000	-	-	-	15,000
Revenue bonds payable	-	3,654,000	-	-	-	3,654,000
Total noncurrent liabilities	<u>-</u>	<u>3,669,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,669,000</u>
Total liabilities	<u>118,822</u>	<u>3,944,964</u>	<u>474,581</u>	<u>2,680</u>	<u>46,310</u>	<u>4,587,357</u>
NET ASSETS						
Invested in capital assets, net of related debt	3,864,414	2,432,079	3,356,594	4,069,963	47,886	13,770,936
Restricted for system development	-	-	-	-	-	-
Restricted for impact fees	91,441	89,686	-	-	-	181,127
Restricted for debt service	-	390,964	-	-	-	390,964
Unrestricted	1,113,883	828,092	1,697,334	489,008	(41,022)	4,087,295
Total net assets	<u>\$ 5,069,738</u>	<u>\$ 3,740,821</u>	<u>\$ 5,053,928</u>	<u>\$ 4,558,971</u>	<u>\$ 6,864</u>	<u>\$ 18,430,322</u>

The notes to the financial statements are an integral part of this statement.

HYRUM CITY CORPORATION
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Major Enterprise Funds				Non-Major Fund	Total Enterprise Funds
	Water Fund	Sewer Fund	Electric Fund	Irrigation Fund	Storm Water Fund	
Operating revenues:						
Charges for sales and services	\$ 922,319	\$ 697,003	\$ 5,181,926	232,684	22,137	\$ 7,056,069
Total operating revenues	<u>922,319</u>	<u>697,003</u>	<u>5,181,926</u>	<u>232,684</u>	<u>22,137</u>	<u>7,056,069</u>
Operating expenses:						
Personnel related expenses	194,468	199,316	382,914	41,747	-	818,445
System operating expenses, including power costs	101,178	420,373	3,744,948	77,425	11,029	4,354,953
Repairs and maintenance	102,457	46,547	54,106	16,304	1,488	220,902
Depreciation	285,147	472,821	165,862	168,275	2,756	1,094,861
Total operating expenses	<u>683,250</u>	<u>1,139,057</u>	<u>4,347,830</u>	<u>303,751</u>	<u>15,273</u>	<u>6,489,161</u>
Operating income	<u>239,069</u>	<u>(442,054)</u>	<u>834,096</u>	<u>(71,067)</u>	<u>6,864</u>	<u>566,908</u>
Nonoperating revenues (expenses):						
Impact fees	20,710	47,507	-	36,442	-	104,659
Rent	-	10,648	-	-	-	10,648
Investment earnings	63,673	54,975	38,812	18,115	-	175,575
Interest and fiscal charges	-	(54,977)	-	-	-	(54,977)
Gain (Loss) on sale of fixed assets	-	-	-	-	-	-
Total nonoperating revenue (expenses)	<u>84,383</u>	<u>58,153</u>	<u>38,812</u>	<u>54,557</u>	<u>-</u>	<u>235,905</u>
Income before contributions and transfers	<u>323,452</u>	<u>(383,901)</u>	<u>872,908</u>	<u>(16,510)</u>	<u>6,864</u>	<u>802,813</u>
Transfers in	-	-	-	-	-	-
Transfers out	(120,000)	-	(80,000)	-	-	(200,000)
Change in net assets	<u>203,452</u>	<u>(383,901)</u>	<u>792,908</u>	<u>(16,510)</u>	<u>6,864</u>	<u>602,813</u>
Total net assets - beginning	<u>4,866,286</u>	<u>4,124,722</u>	<u>4,261,020</u>	<u>4,575,481</u>	<u>-</u>	<u>17,827,509</u>
Total net assets - ending	<u>\$ 5,069,738</u>	<u>\$ 3,740,821</u>	<u>\$ 5,053,928</u>	<u>\$ 4,558,971</u>	<u>\$ 6,864</u>	<u>\$ 18,430,322</u>

The notes to the financial statements are an integral part of this statement.

HYRUM CITY CORPORATION
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Major Enterprise Funds				Non-Major Fund	Total Enterprise Funds
	Water Fund	Sewer Fund	Electric Fund	Irrigation Fund	Storm Water Fund	
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers and users	\$ 925,386	\$ 698,681	\$ 5,031,636	\$ 225,475	\$ 16,849	\$ 6,898,027
Payments to suppliers	(153,775)	(680,317)	(3,883,113)	(131,085)	(11,029)	(4,859,319)
Payments to employees	(196,229)	(199,278)	(377,850)	(48,823)	(1,488)	(823,668)
Other receipts	-	-	-	-	-	-
Other payments	-	-	-	-	-	-
Net cash provided by operating activities	<u>575,382</u>	<u>(180,914)</u>	<u>770,673</u>	<u>45,567</u>	<u>4,332</u>	<u>1,215,040</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Short-term loan (to) from other funds	(46,310)	-	-	-	46,310	-
Transfer out to other funds	(120,000)	-	(80,000)	-	-	(200,000)
Net cash (used) by noncapital financing activities	<u>(166,310)</u>	<u>-</u>	<u>(80,000)</u>	<u>-</u>	<u>46,310</u>	<u>(200,000)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Acquisition of capital assets	(1,235,853)	(277,895)	(366,448)	(40,891)	(50,642)	(1,971,729)
Receipts from property rental	-	10,648	-	-	-	10,648
Receipts from impact fees	20,710	47,507	-	36,442	-	104,659
Receipts from sale of fixed assets	-	-	-	-	-	-
Payment on note payable	-	(5,000)	-	-	-	(5,000)
Payment on bonds payable	-	(188,000)	-	-	-	(188,000)
Interest paid on bonds and note	-	(54,929)	-	-	-	(54,929)
Net cash provided (used) from capital and related financing activities	<u>(1,215,143)</u>	<u>(467,669)</u>	<u>(366,448)</u>	<u>(4,449)</u>	<u>(50,642)</u>	<u>(2,104,351)</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Sale of (Acquisition of) investments	1,700,000	555,257	800,000	-	-	3,055,257
Interest received	63,673	54,975	38,812	18,115	-	175,575
Net cash provided (used) from investing activities	<u>1,763,673</u>	<u>610,232</u>	<u>838,812</u>	<u>18,115</u>	<u>-</u>	<u>3,230,832</u>
Net increase (decrease) in cash and cash equivalents	957,602	(38,351)	1,163,037	59,233	-	2,141,521
Cash and cash equivalents beginning of year	205,080	1,318,626	119,747	397,073	-	2,040,526
Cash and cash equivalents end of year	<u>\$ 1,162,682</u>	<u>\$ 1,280,275</u>	<u>\$ 1,282,784</u>	<u>\$ 456,306</u>	<u>\$ -</u>	<u>\$ 4,182,047</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:						
Operating income	\$ 239,069	\$ (442,054)	\$ 834,096	(71,067)	6,864	\$ 566,908
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation and amortization expense	285,147	472,821	165,862	168,275	2,756	1,094,861
Change in assets and liabilities:						
Accounts receivable	3,067	1,678	(150,290)	(7,209)	(5,288)	(158,042)
Inventory	(15,413)	-	(64,374)	2,667	-	(77,120)
Prepaid expenses	-	-	1	-	-	1
Accounts payable	65,273	(98,809)	(32,055)	(40,023)	-	(105,614)
Deposits and retainage payable	-	(114,588)	12,369	-	-	(102,219)
Compensated absences	(1,761)	38	5,064	(7,076)	-	(3,735)
Net cash provided by (used in) operating activities	<u>\$ 575,382</u>	<u>\$ (180,914)</u>	<u>\$ 770,673</u>	<u>\$ 45,567</u>	<u>\$ 4,332</u>	<u>\$ 1,215,040</u>

The accompanying notes are an integral part of these financial statements.

HYRUM CITY CORPORATION
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUSTICE COURT AGENCY FUND
JUNE 30, 2006

ASSETS

Cash and cash equivalents	\$	18,497
Fines receivable		75,048
Total assets	\$	<u>93,545</u>

LIABILITIES

Due to other governments	\$	93,545
Total liabilities	\$	<u>93,545</u>

The notes to the financial statements are an integral part of this statement.

HYRUM CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City operates under a Mayor-Council form of government and provides the following services: public safety, highways and streets, water, sewer, electric, irrigation, sanitation, culture, parks, recreation, public improvements, planning and zoning, and general administrative services.

The financial statements of Hyrum City Corporation have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Reporting Entity

The City applies the criteria of GASB codification section 1200 to define the scope of the reporting entity. Consideration is given to various factors, including oversight and financial responsibility. Based upon the application of this criteria, the financial statements include all funds which collectively are referred to as the financial reporting entity of the City. As required by generally accepted accounting principles (GAAP), these financial statements present Hyrum City Corporation (referred to as the "primary government" for reporting purposes) and its "component unit" (separate legal entity for which the City is considered to be the financial beneficiary).

Discretely presented component units. Hyrum Library and Museum Foundation provides fundraising and other efforts toward the construction of a new library and museum. The Foundation is directed by a Board, which includes management personnel of the City. The Foundation does not issue separate financial statements, therefore, no financial accountability to other entities is made by the Foundation.

B. Government-wide and Fund Financial Statements

Government-wide Financial statements. The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties for goods or services.

Fund Financial Statements. Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The remaining governmental fund is combined into a single column and reported as an other (nonmajor) fund.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Government-wide Financial Statements. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The use of financial resources to acquired capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term debt are reported as a reduction of the related liability, rather than an expenditure in the government-wide financial statements.

HYRUM CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Governmental Fund Financial Statements. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. "Measurable" means that amounts can be reasonably determined within the current period. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Property taxes are recorded when levied. Property taxes which have not been collected within 60 days of year end, and therefore do not meet the "available" criterion, are not reported until collected. Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measurable and their validity seems certain.

Sales and excise taxes, energy taxes, and franchise taxes, are considered "measurable" and recognized as revenue when received by merchants and will be remitted to the City in time to be used to pay current obligations. Grant revenue is recognized when qualified expenditures are incurred and a contractual claim exists with the grantor agency. All other revenue items are considered to be measurable and available only when cash is received by the City.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Exceptions to this general rule include principal and interest on long-term debt as well as expenditures related to compensated absences, which are recognized when payment is due.

The City reports the following major governmental funds:

General Fund—The General Fund accounts for all activities not accounted for by other funds of the City. The principal sources of revenue for this fund are taxes, charges for services, intergovernmental revenues and impact fees.

Capital Project Fund—The Capital Project Fund is used to account for financial resources to be used for the acquisition or construction of specific projects other than those financed by proprietary funds.

The City's nonmajor governmental fund is the Special Revenue Library Fund. This nonmajor special revenue fund accounts for specific revenue sources that are restricted to expenditures for specified library purposes.

Proprietary Fund Financial Statements. Proprietary Funds include enterprise funds. Enterprise Funds report the activities for which a fee is charged to external users for goods or services. The financial statements of the proprietary funds are reported similar to the government-wide financial statements in that they both use the economic resources measurement focus and the accrual basis of accounting.

Proprietary Funds distinguish between operating and nonoperating revenues and expenses. Operating revenues and expenses result from providing goods and services relating to the primary operations of the proprietary fund. Other revenues and expenses are reported as nonoperating.

The City reports the following major proprietary funds:

Water Fund - the Water Fund is used to account for activity related to providing culinary water services.

Sewer Fund - the Sewer Fund is used to account for activity related to providing sewer services.

Electric Fund - the Electric Fund is used to account for activity related to providing electric services.

Irrigation Fund - the Irrigation Fund is used to account for activity related to providing pressurized irrigation services.

The City's nonmajor proprietary fund is the Storm Water Fund. This nonmajor fund is used to account for activity related to providing storm water services.

HYRUM CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Fiduciary Fund Financial Statements. The City has only one type of fiduciary fund. The Justice Court Agency Fund is used to account for assets held by the City justice court as an agent for other governments or individuals. Agency Funds are accounted for using accrual basis of accounting, but due to their custodial nature (assets equal liabilities), do not present results of operations or have a measurement focus.

D. Budgets

Budgets are legally adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for funds. All annual appropriations lapse at fiscal year end.

The City operates within the budget requirements for Cities as specified by State law. The financial reports reflect the following budgetary standards.

1. By the first regular scheduled council meeting in May, the Mayor submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. By June 15, the budget is legally enacted through passage of an ordinance.
4. The Mayor is authorized to transfer budgeted amounts within departments within the General Fund; however, any transfer of budgeted amounts between departments within the General Fund must be approved by the City Council. The City must hold a public hearing to alter the total expenditures of the General Fund.
5. Budgeted amounts are as originally adopted, or as amended by the City Council prior to June 30. Individual amendments were not material in relation to the original appropriations which were amended.

E. Cash and Cash Equivalents

Unrestricted cash balances of all funds are combined to form a pool of cash and investments which is managed by the City Treasurer and City Administrator in accordance with the Utah Money Management Act. Income from the investment of pooled cash is allocated based upon each fund's portion of the pool. Restricted cash consists of that portion of pooled cash that is restricted for a specific use due to constraints imposed by external parties or enabling legislation, or is cash held in trust in compliance with bond covenants, terms and conditions. When both restricted and unrestricted sources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Investments are recorded at fair value based upon quoted market prices as of June 30, 2006, except where there is no material difference between cost and fair value. The difference between the purchase price and market price when material is recorded as investment income.

Statements of cash flows are presented for proprietary funds under the direct method. For purposes of the statements of cash flows, each fund considers all highly liquid investments with a maturity of three months or less, when purchased, to be cash equivalents.

F. Interfund transactions

Interfund transactions represent transactions between different funds within the City. In general, interfund activity has been eliminated from the government-wide financial statements in an effort to minimize the doubling-up of revenues and expenses resulting from such transactions.

HYRUM CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Private-sector Standards of Accounting and Financial Reporting

The City generally applies to both the government-wide and proprietary fund statements all *Financial Accounting Standards Board (FASB)* Statements and Interpretations, APB Opinions, and Accounting Research bulletins issued on or before November 30, 1989, to the extent that those standards do not conflict with or contradict guidance of the *Governmental Accounting Standards Board (GASB)*. The City has elected not to follow private-sector guidance subsequent to that date.

H. Capital Assets

Capital assets include land, buildings, improvements other than buildings, machinery and equipment, infrastructure (roads, bridges, lighting and sidewalks) and construction in progress. These assets are reported in the government-wide financial statements in the relevant column on the Statement of Net Assets under governmental or business-type activities. Proprietary fund capital assets are also reported in the appropriate fund statements. Capital assets acquired by governmental funds are recorded as expenditures in the governmental fund financial statements. The capitalization threshold for personal property is defined to be assets with a useful life of at least one year and costing at least \$5,000; real property thresholds vary by type of asset, but are generally established at the same amount. Assets purchased or constructed are generally recorded at cost. If precise cost is not available (as was the case with certain infrastructure), the asset is recorded at estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation.

When constructing capital assets, interest expense incurred relating to governmental activities is not capitalized. Interest on assets being readied for service in proprietary funds may be capitalized. No interest was capitalized during 2006.

Depreciation of all exhaustible capital assets is charged as an expense against operations for proprietary funds and is charged to the various functional expenses or business-type activities in the government-wide Statement of Activities. Accumulated depreciation is reported on proprietary fund and government-wide Statements of Net Assets. Depreciation is provided over the estimated useful lives using the straight-line method. Estimated useful lives are as follows:

Buildings	10-40 years
Improvements	5-40 years
Machinery and equipment	5-20 years
Vehicles	5-10 years
Infrastructure	20-40 years

HYRUM CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. The City pays 100% of these benefits to eligible employees upon termination or retirement. An estimate of the liability related to these benefits is accrued when incurred in government-wide financial statements and proprietary funds and reported as a liability. A liability for these amounts is reported in the governmental funds only if benefits have matured as a result of employee resignations and retirements.

J. Long-term Liabilities

In the government-wide financial statements and proprietary fund statements, long-term debt is reported as a liability. Bond premiums and discounts, defeasance costs, (the difference between the carrying amount of the defeased debt and its reacquisition price in bond refundings), as well as issuance costs, are deferred and amortized over the life of the bonds.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

K. Net Assets/Fund Balances

The difference between assets and liabilities is "Net Assets" on the government-wide and proprietary fund financial statements and "Fund Balance" on the governmental fund financial statements. Net assets are divided into invested in capital assets (net of related debt), restricted, and unrestricted. Net assets are reported as restricted when constraints are placed upon them by external parties or are imposed by constitutional provisions or enabling legislation.

In the governmental fund financial statements, fund balances are classified as reserved, unreserved designated, or unreserved undesignated. Reserves represent those portions of fund balance not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

L. Property Taxes

Property taxes are attached as an enforceable lien on property as of January 1. Taxes are levied on June 22 for the next fiscal year beginning July 1 and are due November 30. City property tax revenues are not recognized when levied, because they are not expected to be collected within 60 days after the end of the current year. This policy meets the criteria of GASB.

M. Inventories and Prepaid Items

Inventories are stated at the lower of cost or market, determined on a first-in, first-out basis. Inventories are accounted for under the consumption method.

Certain payments to vendors reflect costs applicable to future accounting periods and are included as prepaid items in both the government-wide and fund financial statements.

HYRUM CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 2. RECEIVABLES

Receivables at June 30, 2006, consist of the following:

	<u>Taxes</u>	<u>Intergovernmental</u>	<u>Accounts</u>	<u>Total</u>
Governmental activities:				
General Fund receivables	\$ 8,336	\$ 49,995	\$ 113,736	\$ 172,067
General Fund bad debt reserve	-	-	(445)	(445)
Total receivables	<u>\$ 8,336</u>	<u>\$ 49,995</u>	<u>\$ 113,291</u>	<u>\$ 171,622</u>
Business-type activities:				
Water Fund	\$ -	\$ -	\$ 81,806	\$ 81,806
Sewer Fund	-	-	83,001	83,001
Electric Fund	-	-	568,933	568,933
Irrigation Fund	-	-	34,345	34,345
Storm Water Fund	-	-	5,288	5,288
Less: bad debt reserve	-	-	(5,555)	(5,555)
Total receivables	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 767,818</u>	<u>\$ 767,818</u>

The bad debt reserve for the business-type activities is as follows: Water Fund \$785, Sewer Fund \$440, Electric Fund \$4,090, and Irrigation Fund \$240.

NOTE 3. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Land and easements	\$ 410,447	\$ 556,901	\$ (76,200)	\$ 891,148
Construction in progress	262,576	1,551,903	(106,968)	1,707,511
Total capital assets not being depreciated	<u>673,023</u>	<u>2,108,804</u>	<u>(183,168)</u>	<u>2,598,659</u>
Capital assets being depreciated:				
Buildings	1,823,777	-	-	1,823,777
Improvements	990,226	162,044	-	1,152,270
Machinery and equipment	1,529,928	86,307	-	1,616,235
Infrastructure	5,029,597	176,467	-	5,206,064
Total capital assets being depreciated	<u>9,373,528</u>	<u>424,818</u>	<u>-</u>	<u>9,798,346</u>
Less accumulated depreciation				
Buildings	(1,242,536)	(79,738)	-	(1,322,274)
Improvements	(746,941)	(42,769)	-	(789,710)
Machinery and equipment	(993,043)	(81,383)	-	(1,074,426)
Infrastructure	(2,099,336)	(198,685)	-	(2,298,021)
Total accumulated depreciation	<u>(5,081,856)</u>	<u>(402,575)</u>	<u>-</u>	<u>(5,484,431)</u>
Total capital assets being depreciated, net	<u>4,291,672</u>	<u>22,243</u>	<u>-</u>	<u>4,313,915</u>
Governmental activity capital assets, net	<u>\$ 4,964,695</u>	<u>\$ 2,131,047</u>	<u>\$ (183,168)</u>	<u>\$ 6,912,574</u>

HYRUM CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 3. CAPITAL ASSETS (Continued)

Business-type activities:

Capital assets not being depreciated:

Land and easements	\$ 1,595,931	\$ 18,088	\$ -	\$ 1,614,019
Water stock and rights	1,101,877	738,555	-	1,840,432
Construction in progress	4,836,557	701,997	(4,789,296)	749,258
Total assets not being depreciated	<u>7,534,365</u>	<u>1,458,640</u>	<u>(4,789,296)</u>	<u>4,203,709</u>

Capital assets being depreciated:

Buildings	3,061,698	4,798,413	-	7,860,111
Improvements	18,272,128	398,315	-	18,670,443
Machinery and equipment	1,063,541	105,656	-	1,169,197
Total capital assets being depreciated	<u>22,397,367</u>	<u>5,302,384</u>	<u>-</u>	<u>27,699,751</u>

Less accumulated depreciation

Buildings	(2,117,941)	(361,493)	-	(2,479,434)
Improvements	(10,360,750)	(643,916)	-	(11,004,666)
Machinery and equipment	(693,972)	(89,452)	-	(783,424)
Total accumulated depreciation	<u>(13,172,663)</u>	<u>(1,094,861)</u>	<u>-</u>	<u>(14,267,524)</u>

Total capital assets being depreciated, net	<u>9,224,704</u>	<u>4,207,523</u>	<u>-</u>	<u>13,432,227</u>
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Business-type capital assets, net	<u>\$ 16,759,069</u>	<u>\$ 5,666,163</u>	<u>\$ (4,789,296)</u>	<u>\$ 17,635,936</u>
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Depreciation expense was charged to functions as follows:

Governmental activities:

Administration	\$ 63,348
Culture, parks and recreation	76,681
Highways and streets	231,190
Cemetery	8,299
Public safety	7,302
Senior citizens	15,755
Total depreciation expense - governmental activities	<u>\$ 402,575</u>

Business-type activities:

Water	\$ 285,147
Sewer	472,821
Electric	165,862
Irrigation	168,275
Storm Water	2,756
Total depreciation expense - business-type activities	<u>\$ 1,094,861</u>

HYRUM CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 4. RETIREMENT PLANS

Plan Description. The City contributes to the Local Governmental Noncontributory Retirement System cost-sharing multiple-employer defined benefit pension plan administered by the Utah Retirement Systems (Systems). Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Noncontributory Retirement System. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Funding Policy. In the Local Governmental Noncontributory Retirement System, the City is required to contribute 11.09% of their annual covered salary. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

The City contributions to the Noncontributory Retirement System for June 30, 2006, 2005, and 2004 were \$109,937, \$107,209, and \$87,361 respectively.

The City also sponsors a 401-K deferred compensation arrangement through the Utah State Retirement System for all eligible employees. The City contributed \$8,422 to this plan during the year ended June 30, 2006, and the employees contributed \$8,924.

HYRUM CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 5. LONG-TERM AND SHORT-TERM OBLIGATIONS

The City has the following long-term obligations at June 30, 2006:

On June 27, 2000, the City entered into a trust deed note payable for the purchase of land on which to expand their sewer system. The note will be repaid from sewer fund sales. The note payable matures on January 15, 2010, with annual payments of \$5,000 plus interest at a rate of 10%. The following is a debt schedule over the remaining period of the note.

Year	Principal	Interest	Total	Interest Rate
2007	5,000	2,000	7,000	10%
2008	5,000	1,500	6,500	10%
2009	5,000	1,000	6,000	10%
2010	5,000	500	5,500	10%
	<u>\$ 20,000</u>	<u>\$ 5,000</u>	<u>\$ 25,000</u>	

In 2004, the City issued \$4,220,000 in Taxable Sewer Revenue Bonds, Series 2003, to finance the construction of a sewer system treatment plant. The bonds are to be repaid from sewer sales from the sewer utility fund. The bonds mature February 1, 2024, with annual payments varying from \$187,000-\$237,000, including interest at a rate of 0%. In order for the City to receive the funds from the State of Utah Water Quality Board it was necessary to enter into an agreement requiring a hardship assessment of 1.3% of the annual outstanding balance. The following is a debt schedule over the period of the bonds.

Year	Principal	Hardship Assessment	Total	Interest Rate
2007	191,000	49,985	240,985	0%
2008	193,000	47,502	240,502	0%
2009	196,000	44,993	240,993	0%
2010	199,000	42,445	241,445	0%
2011	201,000	39,858	240,858	0%
2012-2016	1,046,000	159,393	1,205,393	0%
2017-2021	1,115,000	89,635	1,204,635	0%
2022-2024	704,000	18,369	722,369	0%
	<u>\$ 3,845,000</u>	<u>\$ 492,180</u>	<u>\$ 4,337,180</u>	

On June 29, 2006, the City issued \$2,000,000 in Sales Tax Revenue Bonds, Series 2006, to finance the construction of a new library facility. The bonds are to be repaid from sales tax revenue or private contributions from the Hyrum Library and Museum Foundation. The bonds mature June 15, 2026, with annual payments of \$158,467, including interest at rates from 4.1% to 5.06%. The following is a debt schedule over the period of the bonds.

Year	Principal	Interest	Total	Interest Rate
2007	67,000	91,280	158,280	4.10%
2008	66,000	92,226	158,226	4.18%
2009	69,000	89,467	158,467	4.19%
2010	72,000	86,576	158,576	4.22%
2011	75,000	83,538	158,538	4.26%
2012-2016	427,000	365,141	792,141	4.37%-4.74
2017-2021	538,000	254,364	792,364	4.8%-4.96%
2021-2026	686,000	107,178	793,178	4.99%-5.06%
	<u>\$ 2,000,000</u>	<u>\$ 1,169,770</u>	<u>\$ 3,169,770</u>	

The City has an obligation for compensated absences that arises from the accrual of unused vacation and sick time provided for eligible employees.

Transactions affecting long-term obligations are as follows:

	Bonds Payable	Notes Payable	Obligations for Compensated Absences	Total
Business-type				
Balance, July 1	\$ 4,033,000	\$ 25,000	\$ 321,130	\$ 4,379,130
Additions	2,000,000	-	120,722	2,120,722
Retirements	(188,000)	(5,000)	(148,678)	(341,678)
Balance, June 30	<u>\$ 5,845,000</u>	<u>\$ 20,000</u>	<u>\$ 293,174</u>	<u>\$ 6,158,174</u>
Due within 1 year	<u>\$ 258,000</u>	<u>\$ 5,000</u>	<u>\$ -</u>	<u>\$ 263,000</u>

**HYRUM CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

NOTE 6. SHORT-TERM DEBT

The City had no short-term debt during the year ended June 30, 2006.

NOTE 7. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

There were no funds with expenditures in excess of appropriations for the year ended June 30, 2006.

There were no fund balance/net asset deficits at June 30, 2006.

NOTE 8. CASH AND INVESTMENTS

The City maintains a Deposit and Investment Pool that is available for use by all funds of the City.

Deposits

At June 30, 2006, the carrying amount of the City deposits was \$624,900 and the bank balance was \$460,663. Of the bank balance, \$118,373 was covered by federal depository insurance. Deposits are not collateralized nor are they required to be by state statute. However, the State Commissioner of Financial Institutions monitors financial institutions and establishes limits for deposit of public money at individual financial institutions, and the City follows these recommendations. At June 30, 2006, the carrying amount of the Hyrum Library and Museum Foundation deposits was \$112,444 and the bank balance was \$112,444. Of the bank balance, \$100,000 was covered by federal depository insurance.

Investments

The City follows the requirements of the Utah Money Management Act (Utah Code Annotated 1953 Section 51, Chapter 7) in handling its depository and temporary investment transactions. This law requires the deposit of City funds in a "qualified depository". The act defined a "qualified depository" as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

HYRUM CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 8. CASH AND INVESTMENTS (Continued)

The City's investment types and balances at June 30, 2006, are noted below.

<u>Investment Type</u>	<u>Maturity</u>	<u>Rating</u>	<u>Fair Value</u>
Certificates of deposit •	Annually	N/A	\$ 2,755,363
Utah Public Treasurer's Investment	N/A	Not rated	<u>4,042,569</u>
Total investments			6,797,932
Deposits-cash in bank			624,900
Deposits-cash in bank-Component Unit			112,444
Total cash and investments			<u>\$ 7,535,276</u>
As reported in the financial statements:			
Cash and cash equivalents-primary			\$ 4,815,536
Cash and cash equivalents-component Investments			112,444
Restricted cash and cash equivalents			2,588,799
Cash and cash equivalents - Fiduciary Funds			<u>18,497</u>
			<u>\$ 7,535,276</u>

The City does not have a formal investment policy. The City, however, invests the majority of the excess funds in certificates of deposit and the Utah Public Treasurer's Investment Fund (UPTIF). The UPTIF permits the City to withdraw funds one day after giving withdrawal notification.

The custodial risk for investments is the risk that in the event of default or failure of the counterparty, the City will not recover the value of its investment or collateral securities that are in the possession of an outside party. A portion of the City's certificates of deposit are uninsured and uncollateralized investments. The City has no formal policy dealing with custodial credit risk.

The Utah Public Treasurer's Investment Fund (UPTIF) is an external deposit and investment pool wherein governmental entities are able to pool the monies from several entities to improve investment efficiency and yield. These monies are invested primarily in money market securities and contain no withdrawal restrictions. As such, the monies invested in this fund are not insured and are subject to the same market risks as any similar investment in money market funds. The Fund investments must comply with the provisions of the Utah Money Management Act. The Fund is not SEC registered. The fair value of the City's position in the fund is the same as the value of fund shares.

HYRUM CITY CORPORATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 9. RECONCILIATION OF INTERFUND BALANCES

The following table provides a reconciliation of all interfund transfers:

Transfer to:		Transfer from:	
Capital Project Fund	\$ 638,690	General Fund	\$ 638,690
General Fund	120,000	Water Fund	120,000
General Fund	80,000	Electric Fund	80,000
	<u>\$ 838,690</u>		<u>\$ 838,690</u>

The transfer from the General Fund to the Capital Project Fund was made to provide funding for construction of highways and streets and to purchase park land.

The transfer from the Water Fund and Electric Fund to the General Fund was for operating capital.

At June 30, 2006, the Storm Water Fund had a cash deficit, which was reclassified as an interfund borrowing from the Water Fund in the amount of \$46,310.

SUPPLEMENTAL INFORMATION

HYRUM CITY CORPORATION
BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND
JUNE 30, 2006

	Special <u>Revenue Fund</u> <u>Library Fund</u>	<u>Total</u> <u>Nonmajor</u>
ASSETS		
Cash and cash equivalents	\$ 5,101	\$ 5,101
Investments	-	-
Receivables (net of allowance for uncollectibles):		
Accounts	-	-
Taxes	-	-
Due from other governments	-	-
Restricted cash and cash equivalents	-	-
	<hr/>	<hr/>
Total assets	<u>\$ 5,101</u>	<u>\$ 5,101</u>
LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ -	-
Accrued payroll liabilities	-	-
Total liabilities	<hr/> -	<hr/> -
Fund balances		
Unreserved		
Designated		
Library projects	5,096	5,096
Capital projects	-	-
Undesignated	5	5
Total fund balances	<hr/> 5,101	<hr/> 5,101
	<hr/>	<hr/>
Total liabilities and fund balances	<u>\$ 5,101</u>	<u>\$ 5,101</u>

HYRUM CITY CORPORATION
LIBRARY FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget		
REVENUES				
Taxes:				
Property	\$ -	\$ -	\$ -	\$ -
Restaurant	-	-	-	-
Transient room	-	-	-	-
Licenses and permits	-	-	-	-
Intergovernmental	3,700	6,735	6,735	-
Charges for services	-	-	-	-
Fines	-	-	-	-
Investment earnings	-	-	-	-
Contributions and donations	-	10	10	-
Payments in lieu of taxes	-	-	-	-
Miscellaneous	-	-	-	-
Total revenues	<u>3,700</u>	<u>6,745</u>	<u>6,745</u>	<u>-</u>
EXPENDITURES				
Current:				
Culture, parks and recreation	<u>3,700</u>	<u>5,537</u>	<u>5,537</u>	<u>-</u>
Total expenditures	<u>3,700</u>	<u>5,537</u>	<u>5,537</u>	<u>-</u>
Excess of revenues over expenditures	-	1,208	1,208	-
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Capital leases	-	-	-	-
Sale of capital assets	-	-	-	-
Total other financing sources and uses	-	-	-	-
Net change in fund balances	-	1,208	1,208	-
Fund balances - beginning	3,893	3,893	3,893	-
Fund balances - ending	<u>\$ 3,893</u>	<u>\$ 5,101</u>	<u>\$ 5,101</u>	<u>\$ -</u>

HYRUM CITY CORPORATION
CAPITAL PROJECTS FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Charges for services	\$ 12,000	\$ 12,000	\$ 12,000	\$ -
Investment earnings		1,475	1,479	4
Contributions	-	1,090,000	1,090,000	-
Total revenues	<u>12,000</u>	<u>1,103,475</u>	<u>1,103,479</u>	<u>4</u>
EXPENDITURES				
Current:				
Highways and streets	136,500	450,887	204,622	246,265
Culture, parks and recreation	325,000	1,854,050	1,552,451	301,599
Senior citizens	50,000	-	-	-
Total expenditures	<u>511,500</u>	<u>2,304,937</u>	<u>1,757,073</u>	<u>547,864</u>
Excess of revenues over expenditures	<u>(499,500)</u>	<u>(1,201,462)</u>	<u>(653,594)</u>	<u>547,868</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	381,500	638,690	638,690	-
Transfers out	-	-	-	-
Proceeds from bond issuance	-	2,000,000	2,000,000	-
Bond issuance costs	-	(26,700)	(26,700)	-
Total other financing sources and uses	<u>381,500</u>	<u>2,611,990</u>	<u>2,611,990</u>	<u>-</u>
Net change in fund balances	<u>(118,000)</u>	<u>1,410,528</u>	<u>1,958,396</u>	<u>547,868</u>
Fund balances - beginning	213,176	213,176	213,176	-
Fund balances - ending	<u>\$ 95,176</u>	<u>\$ 1,623,704</u>	<u>\$ 2,171,572</u>	<u>547,868</u>

The notes to the financial statements are an integral part of this statement.

**HYRUM CITY CORPORATION
SCHEDULE OF IMPACT FEES
FOR THE YEAR ENDED JUNE 30, 2006**

The State of Utah requires the following information on impact fees to be reported in the supplemental data section of the financial statements.

The City has implemented the collection of impact fees on new development for parks, roads, water storage, water distribution, water treatment, sewer collection, sewer treatment and irrigation. The fees are collected to expand the respective infrastructure as outlined in a properly approved capital facilities plan to handle new growth. If the City does not expend the impact fees within five years of collection, the fees must be rebated back to the property owners or the fees must be designated for a project by the City Council and spent within the designated time frame. As of June 30, 2006, the impact fee activity is as follows:

<u>Impact Fee</u>	<u>Balance, June 30, 2005</u>	<u>Additions</u>	<u>Expenditures</u>	<u>Balance, June 30, 2006</u>
Parks	\$ 145,083	\$ 85,284	\$ (230,367)	\$ -
Roads	201,370	28,338	(210,000)	19,708
Water-storage	47,906	8,372	-	56,278
Water-distribution	25,726	8,393	-	34,119
Water-treatment	471	573	-	1,044
Sewer-collection	32,481	20,980	-	53,461
Sewer-treatment	14,673	21,552	-	36,225
Irrigation	-	36,442	(36,442)	-
	<u>\$ 467,710</u>	<u>\$ 209,934</u>	<u>\$ (476,809)</u>	<u>\$ 200,835</u>

Roads:

The City collects impact fees for new road development and spent a significant amount on the construction of new roads.

Parks:

The City collected impact fees for new park development and acquired land in 2006 for a new park.

Water:

The City collects water impact fees for improvements to the culinary water system. No funds were spent in 2006. All impact fees are designated for expenditure in fiscal year 2007 for water line development and for the purchase or improvement of a chlorinator.

Sewer:

The City collects sewer impact fees for improvements to the sewer collection and treatment system. No funds were spent in 2006. All impact fees are designated for expenditure in fiscal year 2007 for sewer line development and debt payments on the new treatment plant.

Irrigation:

The City collects irrigation impact fees for improvements and maintenance on the existing system. All funds collected in 2006 were spent on such improvements and maintenance.

HYRUM CITY CORPORATION
MANAGEMENT REPORT
FOR THE YEAR ENDED JUNE 30, 2006

HYRUM CITY CORPORATION
MANAGEMENT REPORT
FOR THE YEAR ENDED JUNE 30, 2006

TABLE OF CONTENTS

	Page
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1-2
Independent Auditors' Report on State of Utah Legal Compliance	3-4
Schedule of Findings, Recommendations and Responses	5-6
Status of Prior Year Findings and Recommendations	7-8

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Mayor and Members of the City Council
Hyrum City Corporation

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, and each major fund of Hyrum City Corporation as of and for the year ended June 30, 2006, which collectively comprise Hyrum City Corporation's basic financial statements and have issued our report thereon dated November 3, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hyrum City Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management in the accompanying Schedule of Findings, Recommendations and Responses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hyrum City Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement accounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management in the accompanying Schedule of Findings, Recommendations and Responses.

This report is intended solely for the information and use of Hyrum City Corporation and is not intended to be and should not be used by anyone other than these specified parties.

Wiggins & Co., PC

Brigham City, Utah 84302
November 3, 2006

**INDEPENDENT AUDITORS' REPORT ON
STATE OF UTAH LEGAL COMPLIANCE**

To the Mayor and Members of the City Council
Hyrum City Corporation

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, and each major fund of Hyrum City Corporation as of and for the year ended June 30, 2006, which collectively comprise Hyrum City Corporation's basic financial statements and have issued our report thereon dated November 3, 2006. As part of our audit, we have audited Hyrum City Corporation's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2006. The City received the following major State assistance programs from the State of Utah:

B & C Road Funds (Department of Transportation)

The City also received the following nonmajor grants which are not required to be audited for specific compliance requirements: (However, these programs were subject to testwork as part of the audit of the Hyrum City Corporation's financial statements.)

Emergency Services Grant (State of Utah)
Fire Grant (State of Utah)
Library Grant (State of Utah Library Board)
Road Grant (Department of Transportation)

Our audit also included testwork on the City's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt	Liquor Law Enforcement
Cash Management	Justice Courts Compliance
Purchasing Requirements	B & C Road Funds
Budgetary Compliance	Uniform Building Code Standards
Truth in Taxation & Property Tax Limitations	Other General Issues

The management of Hyrum City Corporation is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which we have reported to the management of Hyrum City Corporation in the Schedule of Findings, Recommendations and Responses for the year ended June 30, 2006. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, Hyrum City Corporation, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching; level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2006.

Wiggins & Co., PC

Brigham City, Utah
November 3, 2006

**HYRUM CITY CORPORATION
FINDINGS, RECOMMENDATIONS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2006**

STATE LEGAL COMPLIANCE FINDINGS

1. JUSTICE COURT ISSUES

Finding:

Utah Code 78-5-130 states that no every justice court shall file monthly reports with the State Court Administrator. During the audit, we noted that the report was filed late one month during the fiscal year.

Recommendation:

We recommend that the City monitor the court to make sure that reports are filed timely.

Response:

The late report was due to vacation schedules. Attempts will be made to schedule vacations to not impact reporting times.

OTHER FINDINGS

2. MEALS AND ENTERTAINMENT RECEIPTS

Finding:

While auditing cash disbursements, we noted that the business purpose and individuals in attendance were not listed on the meal receipts as required by Internal Revenue Service regulations for substantiation purposes.

Recommendation:

We recommend that the City require this information to be listed on any meals or entertainment receipts to comply with IRS regulations. This would ensure the City has an accountable plan and eliminate any requirements for payroll reporting regarding these payments.

Response:

Credit card receipts will now list the purpose of the meeting and those in attendance.

**HYRUM CITY CORPORATION
FINDINGS, RECOMMENDATIONS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2006**

3. JOURNAL ENTRIES

Finding:

While reviewing the journal entries, we noted that assets were transferred from one fund to another in the same entry. Even though the City's software allows this kind of entry, the default is the pooled cash account. This required audit adjusting entries to correct the cash accounts and record the transfers appropriately. This was also noted on the previous year's audit. While this was improved, there were a few material entries that required correction.

Recommendation:

We recommend that the City prepare journal entries individually, fund by fund.

Response:

More care will be taken to record journal entries correctly.

**HYRUM CITY CORPORATION
STATUS OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2006**

STATE LEGAL COMPLIANCE FINDINGS

1. BUDGETARY COMPLIANCE ISSUES

Finding:

Utah Code 10-6 states that no entity shall incur expenditures in excess of the total appropriation for any department or fund. During the audit, we noted that the library department (included in culture, parks and recreation) and the capital projects fund had expenditures in excess of budget.

Recommendation:

We recommend that the City monitor the expenditures during the year to prevent this in future periods.

Status:

Implemented

2. ROAD IMPACT FEES

Finding:

While auditing road impact fees, we noted that not all of the prior year's balance was spent.

Recommendation:

We recommend that the City formally adopt a plan to correct this. The Plan should include a listing of the projects to be completed and a set deadline for completion.

Status:

Implemented.

**HYRUM CITY CORPORATION
STATUS OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2006**

OTHER FINDINGS

3. JOURNAL ENTRIES

Finding:

While reviewing the journal entries, we noted that assets were transferred from one fund to another in the same entry. Even though the City's software allows this kind of entry, the default is the pooled cash account. This required audit adjusting entries to correct the cash accounts and record the transfers appropriately.

Recommendation:

We recommend that the City prepare journal entries individually, fund by fund.

Status:

Although better in fiscal year 2006, this was still a current year finding.